

BCC Monthly Economic Review

June 2015

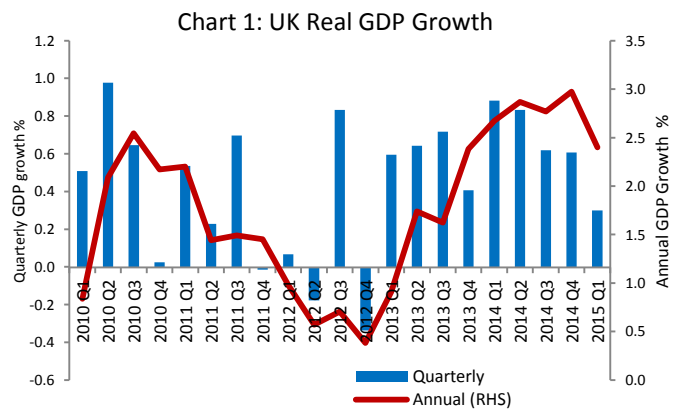
(Based on May 2015 data releases)

Monthly headlines:

- UK GDP growth unrevised in Q1, weighed down by a widening trade deficit
- UK slips into deflation, but a prolonged period of negative inflation remains very unlikely
- Eurozone and Japan outlook still weak, despite growing faster than the UK in Q1

UK GDP growth in Q1 unrevised at 0.3%...

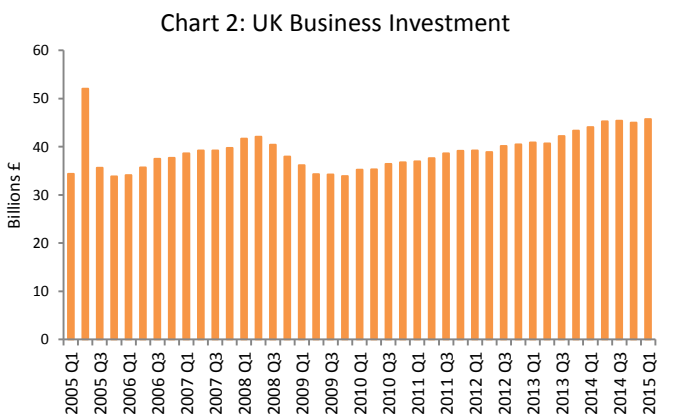
The second official estimate for Q1 2015 growth in UK GDP was unrevised at 0.3% (see Chart 1), which is still the slowest rate of growth since Q4 2012. In annual terms, the UK economy grew by 2.4% in Q1, unrevised from the previous estimate. As a result, UK economic output is currently 4.0% above its pre-recession peak in Q1 2008. The second GDP estimate therefore does little to alter the UK's growth picture. Overall, the latest GDP figures support our view that the UK economy will continue to grow at a good pace.



Source: ONS GDP second estimate, Q1 2015

...as business investment hits 7-year high...

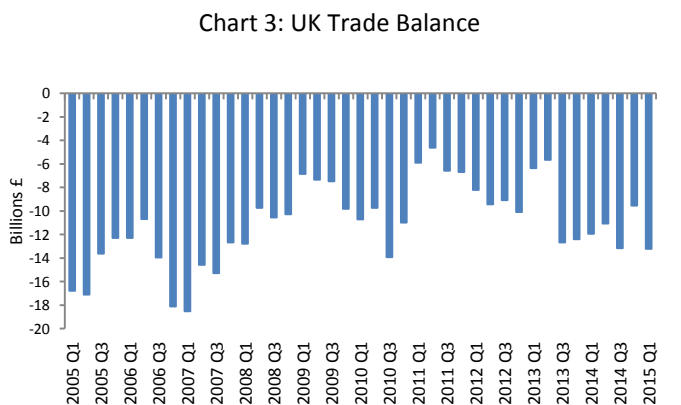
The latest Q1 2015 GDP estimate revealed that business investment grew by 1.7% in the quarter to £45.7 billion, the highest level since Q2 2005 (see Chart 2). Although this is in contrast to the latest QES results, where all of the national investment balances weakened in Q1, the declines were from relatively high levels and all the QES investment balances remain well above their long-term averages. Business investment grew by 3.7% in Q1 in annual terms. Household spending grew by 0.5% in Q1, slower than the 0.6% recorded in Q4 2014.



Source: ONS GDP first estimate, Q1 2015

...but UK's trade position weakens growth.

The UK's net trade position (exports minus imports) continues to weaken. The UK's deficit in trade widened from £9.6 billion in Q4 2014, to £13.2 billion Q1 2015 (see Chart 3). This deterioration was driven by a 0.3% fall in exports - amid an appreciation in sterling - and a 2.3% rise in imports. Consequently, net trade was a drag on overall economic growth in the first three months of 2015, knocking 0.9 percentage points off GDP growth in the quarter and confirms that rebalancing the UK economy remains a major challenge.



Source: ONS GDP second estimate, Q1 2015

UK jobs market strengthens further...

In the three months to March 2015, UK employment rose by 202,000 compared with the previous three months. The number of people unemployed fell by 35,000 and the unemployment rate fell from 5.7% to 5.5% over the same period. Regular pay growth, excluding bonuses, reached 2.2% in annual terms, the sixth successive month that pay growth has outstripped inflation and means that earnings continue to grow in real terms (see Chart 4). Overall, the latest jobs figures show that the UK labour market remains a major source of strength for the UK economy.

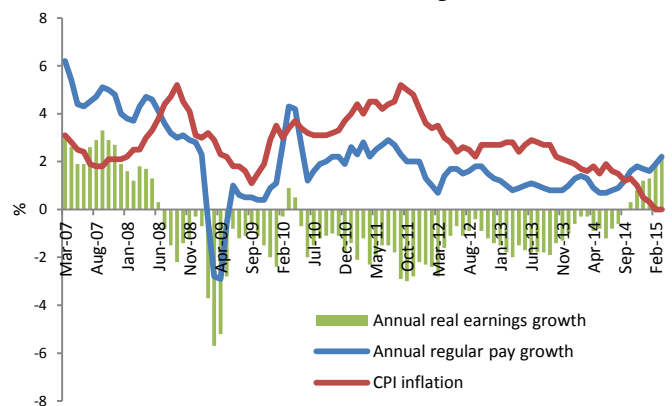
...and inflation turns negative...

CPI inflation fell from 0.0% in March to -0.1% in April (see Chart 5), the first time since 1960 that CPI inflation has been in negative territory. The largest downward contribution came from air and sea fares. This was partly driven by Easter falling earlier in the month this year, compared to 2014. Despite inflation falling into negative territory, a prolonged period of deflation is highly unlikely. The main reason behind the fall in inflation has been the decline in oil prices over the past year and as these declines start to fall out of the CPI inflation calculation, it is likely to pick-up modestly in the coming months.

...but while growth is likely to pick-up in Q2...

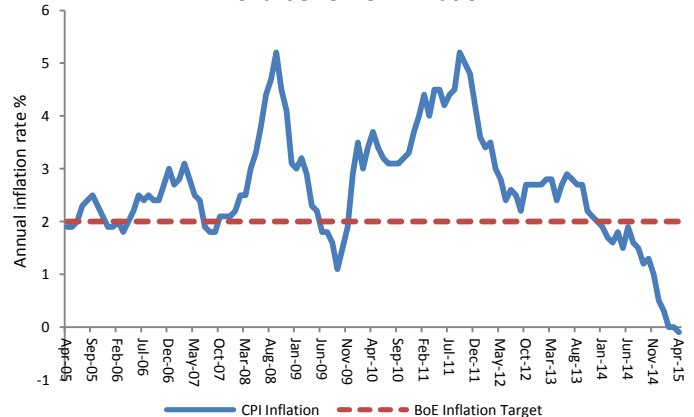
Retail sales rose by 1.2% in April and were up by 4.7% in annual terms (see Chart 6). On the rolling three month-on-three month measure retail sales rose by 0.7% in the three months to April. This is the 26th consecutive month of growth, the longest sustained period since records began in June 1996. Sales of clothing, footwear and textiles rose by 5.2% in April, the biggest rise for four years and was boosted by the warm weather which encouraged sales of summer clothing. Overall, the latest retail sales figures indicate that the pace of growth in the UK is likely to accelerate in the second quarter.

Chart 4: UK Real Earnings



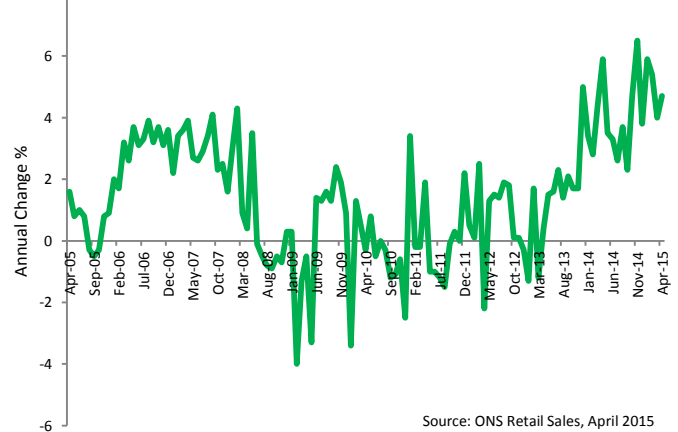
Source: ONS Labour Market Statistics, April 2015

Chart 5: UK CPI inflation



Source: ONS Consumer Price Indices, April 2015

Chart 6: UK Retail Sales



Source: ONS Retail Sales, April 2015

...the UK's medium term outlook weakens.

In its latest inflation report, the Bank of England has downgraded their outlook for the UK economy. The central bank now expects the UK economy to grow by 2.5% this year, lower than its previous estimate of 2.9%. The Bank's latest GDP forecast for 2015 is slightly lower than our own latest growth forecast for the year of 2.7% (see Table 1). The Bank of England also downgraded its 2016 growth forecast from 2.9% to 2.6%. However, despite these downgrades by the Bank of England they still suggest UK's economy will still perform relatively well over the next few years.

Table 1: GDP Forecast Comparisons

	2015 (%)	2016 (%)	2017 (%)
IMF	2.7	2.3	2.2
OECD	2.7	2.5	-
BCC	2.7	2.6	2.6
Bank of England	2.5	2.6	2.4

Sources: BCC, Bank of England, IMF and OECD

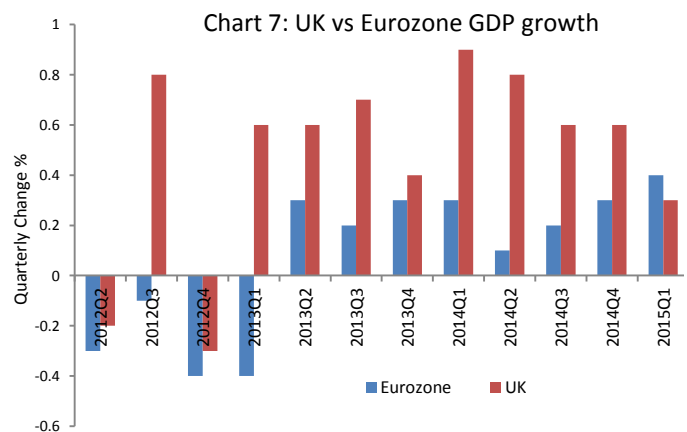
Eurozone growth picks up in Q1...

The eurozone, the UK's biggest trading partner, grew by 0.4% in Q1 2015, from 0.3% in the previous quarter, outperforming the UK (see Chart 7). Germany's economy grew by 0.3% in Q1 2015 and Spain saw growth of 0.9%, the highest rate of expansion among the eurozone nations, but Greece slipped back into recession. A weakening euro and increasing European Central Bank monetary stimulus have helped to support eurozone growth and just like the UK, the eurozone has also been net beneficiaries from falling oil prices. Despite this improvement the eurozone's economic outlook remains weak.

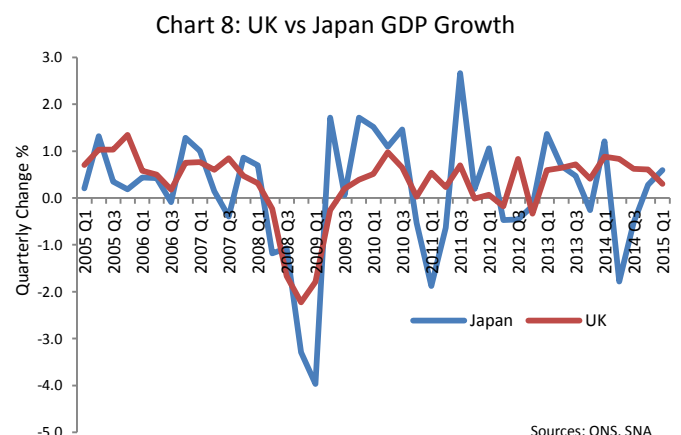
...as Japan's economy continues to recover.

Japan, the world's third largest economy, grew by 0.6% in the first three months of 2015, double the pace of growth of 0.3% recorded in Q4 2014 (see Chart 8), when the country came out of recession. Growth in Q1 was mostly due to a jump in inventories. Private consumption, which accounts for around 60% of Japan's economic output, grew by 0.4% in Q1. However, Japanese economic output was still 1.4% lower in annual terms and with trade and investment continuing to add little to growth, the underlying picture remains weak.

Bottom line: Overall, last month's economic data releases provide further evidence that the UK economy will continue grow at a good pace, albeit still with an unhealthy reliance on consumer spending to drive growth. Although Eurozone and Japan both grew at a faster rate than the UK in Q1, the outlook for these economies remains weaker than the outlook for the UK economy.



Source: Eurostat



Sources: ONS, SNA

Economic Summary Chart

		Deteriorating ■ No change ■ Improving ■													
Sector	Indicators (sources)	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	
Household	Retail Sales (ONS)														
	Consumer Confidence (GfK NOP)														
	House Prices (Halifax)														
	New car sales (SMMT)**														
	Mortgage approvals (Bank of England)														
Business	Business confidence (BCC)***														
	Business lending (Bank of England)														
	Service sector output (ONS)														
	Production output (ONS)														
	Investment intentions (BCC)**														
Labour market	Employment (ONS)														
	Unemployment (ONS)														
	Claimant count (ONS)														
	Earnings (ONS)														
	Economic Inactivity (ONS)														
Government	10 year Government bonds (Bloomberg)														
	Public sector net borrowing (ONS)**														
	Public sector net debt % of GDP (ONS)**														
	Tax receipts (ONS)**														
External	Current Budget Deficit (ONS)**														
	UK trade balance (ONS)														
	Exchange rate (Bank of England)														
	Export Sales (BCC)***														
Global	Export orders (BCC)***														
	US GDP (BEA)****														
	US unemployment (BLS)														
	Eurozone GDP (Eurostat)****														
	Eurozone Unemployment (Eurostat)														
China GDP (Oxford Economics)															

*Colours indicate an improvement or deterioration of each indicator and refer to monthly changes unless stated. For example, an improvement in employment refers to an increase, while an improvement in unemployment refers to a fall. Dates refer to the release dates for each indicator.

Annual changes. *Quarterly changes. ****Latest figures are estimates.